SIERRA LEONE

Table 1	2017
Population, million	7.6
GDP, current US$ billion	3.3
GDP per capita, current US$	439
International poverty rate ($1.9)[a]	52.2
Lower middle-income poverty rate ($3.2)[a]	81.3
Upper middle-income poverty rate ($5.5)[a]	94.7
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	114.8
Life expectancy at birth, years[b]	51.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011 PPPs.
(b) Most recent WDI value (2016)

Economic growth is expected to be subdued in 2018. Real GDP growth is projected to remain flat at 3.7 percent, reflecting the suspension of iron ore production. However, growth is expected to rebound to 6.3 percent by 2020 underpinned by increased investments and productivity in agriculture and services. High inflation, severe exchange rate pressures, burgeoning public debt, and huge budget arrears, represent the main threat to medium-term macroeconomic stability. Moreover, fuel price liberalization may have short term negative impact on poverty.

Recent developments

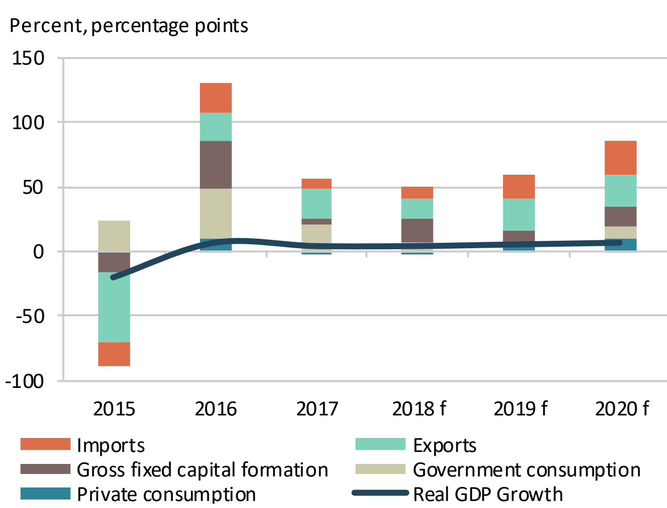
Economic growth is expected to be remain stagnant at 3.7 percent in 2018, revised downwards from an initial projection of 5.1 percent, reflecting the closure of the main iron ore mine early in the year. The non-iron ore economy is expected to grow by 3.6 percent, up from 3.4 percent in 2017, driven by strong crop production and fisheries as well as the uptick of tourism, transportation and communication, and finance.

Macroeconomic imbalances continue to widen in 2018 contributing to the lethargy in economic activity. After declining from 15.3 percent in December 2017 to 14.9 percent in March 2018, inflation rose sharply to 16.5 percent in June 2018, reflecting a sharp depreciation of the Leone and the increase in food inflation (from 17.9 percent in December to 19.7 percent in June 2018). The Leone came under sudden pressure in May and June, depreciating respectively by 7.0 percent and 8.1 percent (YoY) in the official and parallel markets due mainly to the fall in export earnings following the suspension of iron ore mining. Against the backdrop of sharp depreciation, the Bank of Sierra Leone (BSL) increased the monetary policy rate by 150 basis points to 16.5 percent in June 2018 in a bid to contain mounting inflationary pressures. Money supply growth decelerated in the first half of 2018 reflecting BSL's tight monetary policy stance throughout 2017 as well as weak capacity utilization in the economy.

The overall fiscal deficit including grants increased to 3.1 percent of GDP as at end-June 2018 from 2.6 percent of GDP over the same period in 2017, driven mainly by spending on wages and salaries and subsidies and transfers. On the other hand, capital spending fell to 3.2 percent of GDP in the first half of 2018 (2018H1) from 4.3 percent of GDP in 2017H1 as the new Government sought to restrain spending on capital projects. Domestic revenue improved to 5.8 percent of GDP in 2018H1, up from 5.6 percent in 2017H1, driven mainly by an increase in non-tax revenue, to 1.3 percent of GDP from 0.8 percent, following the introduction of a treasury single account (TSA). Tax revenue remained flat at 4.5 percent of GDP in 2018H1, same as in 2017H1. The fiscal deficit is financed mainly by borrowing from the banking system and the accumulation of suppliers' arrears. The worsening fiscal position of the government has led to a sharp rise in the stock of public debt, to 61.2 percent of GDP in 2017 from 57.5 percent of GDP in 2016, due to the continued depreciation of the exchange rate as well as new borrowings.

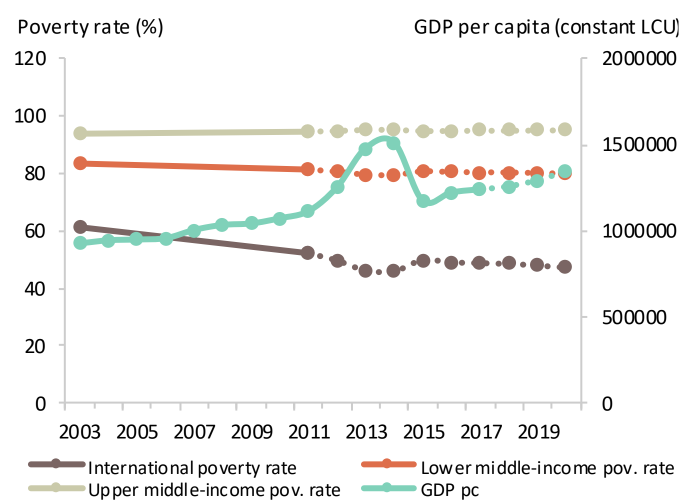
The current account deficit is expected to widen to 25.7 percent of GDP in 2018 (from 20.0 percent in 2017) due largely to weak export growth following the suspension of iron ore production. The deficit would be financed mainly by inflows to the financial account especially foreign direct investments in agriculture and mining. Gross external reserves increased slightly from US$500 million in December 2017 to US$507.9 million in 2018H1, representing about 3.0 months of import.

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Statistic Sierra Leone and World Bank staff estimates.

FIGURE 2 Sierra Leone / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see table 2.

Outlook

Economic growth is projected to rise from 3.7 percent in 2018 to 6.3 percent in 2020 underpinned by increased investments and productivity in agriculture and services. In March 2018, Sierra Leone held national and local elections to usher in a second democratic change of the party in power since the end of the civil war in 2002. This peaceful transition should encourage foreign investment in the medium term. Overall, slight but continued progress is expected on the incidence of poverty underpinned by the subdued projected growth in 2018. The proportion of poor households living below the international poverty line of US$1.9/day (2011 PPP) is expected to stay flat at around 48 percent between 2017 and 2018. The ongoing Sierra Leone Integrated Household Survey (SLIHS), which was last carried out in 2011, will inform evolution of poverty in the long-term. In the medium-term, however, poverty is projected to fall to 47.9 percent in 2019 and 47.1 percent in 2020, attributable to gradual increase in economic growth and increased social spending. Further impetus to poverty reduction could come from the diversification into cash crops and non-farm sectors, like tourism.

Inflation is expected to decline to 13.9 percent in 2018 and return to single digit by 2020 reflecting the tight monetary policy stance of BSL and increased domestic food production. The current account deficit is projected to narrow to 21.8 percent of GDP in 2020 as exports increase with resumption of iron ore production. External reserve coverage is expected to increase to at least 5 months of import over the medium-term as exports increase and measures to build foreign reserves are implemented. Sustained implementation of fiscal consolidation measures such as fuel price liberalization, restructuring of wages and salaries and the TSA will reduce fiscal deficits from 8.5 percent of GDP in 2017 to 6.0 percent in 2018 and further to 2.6 percent in 2020. As a result, public debt will decline to 54.2 percent of GDP by 2020.

Risks and challenges

The risks to the medium-term outlook stem mainly from domestic sources. They include the worsening of fiscal imbalances on account of past fiscal slippages and new expenditure pressures to implement the Government's flagship free education programme, higher consumer price inflation following the liberalization of fuel prices, severe exchange rate pressures due to the slowdown of exports occasioned by the shutdown of iron ore production, and burgeoning public debt including external debt of US$1.5 billion, domestic debt of Le5.0 trillion (or US$655.3 million), and unpaid cheques at BSL and the Accountant General's department worth over Le1.3 trillion. Furthermore, the liberalization of fuel prices, ending implicit subsidies for electricity supply, may have a short term negative impact on poverty if not accompanied by robust mitigation measures. On the external front, the terms of trade could deteriorate given the anticipated increase in international crude oil prices with potential attendant pressure on the exchange rate and inflation.

TABLE 2 Sierra Leone / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	-20.6	6.3	3.7	3.7	5.1	6.3
Private Consumption	-0.2	10.8	-0.4	-2.4	5.0	10.2
Government Consumption	24.2	-43.8	4.2	28.1	7.7	12.4
Gross Fixed Capital Investment	-15.2	37.1	4.3	18.2	10.1	16.3
Exports, Goods and Services	-55.1	21.7	23.3	16.0	24.5	25.0
Imports, Goods and Services	-18.3	23.9	7.5	8.5	19.0	26.5
Real GDP growth, at constant factor prices	-20.7	6.7	3.7	3.7	5.1	6.3
Agriculture	3.1	4.0	4.5	5.4	5.4	5.6
Industry	-75.0	27.0	-5.9	1.0	7.7	19.6
Services	3.7	5.3	5.7	2.1	3.9	3.6
Consumer Prices (end-of-period)*	8.4	17.4	15.3	13.9	11.2	8.7
Current Account Balance (% of GDP)	-22.9	-17.3	-20.0	-25.7	-23.0	-21.8
Fiscal Balance (% of GDP)	-4.6	-8.0	-8.5	-6.0	-4.4	-2.6
Debt (% of GDP)	45.6	57.5	61.2	60.3	58.0	54.2
Primary Balance (% of GDP)	-3.8	-7.2	-6.8	-4.2	-3.4	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.8	49.0	48.7	48.4	47.9	47.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	80.7	80.4	80.3	80.2	80.1	79.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	94.9	94.9	95.0	95.0	95.0	95.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.*=IMF staff estimates
(a) Calculations based on 2003-SLIHS and 2011-SLIHS. Actual data: 2011. Nowcast: 2012-2018. Forecast are from 2019 to 2020.
(b) Projection using point-to-point elasticity (2003-2011) with pass-through = 0.525 based on GDP per capita in constant LCU.